

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WEBSTER COUNTY	)	CASE NO.
WATER DISTRICT FOR RATE ADJUSTMENT	)	2015-00065
PURSUANT TO 807 KAR 5:076	)	

ORDER

On February 26, 2015, Webster County Water District ("Webster County") applied to adjust its retail water service rates. By this Order, the Commission denies Webster County's requested rates and finds that Webster County's current rates generate a level of revenues that is sufficient and should remain as the rates for water service.

Webster County, pursuant to 807 KAR 5:076, requested to adjust its retail water service rates in order to generate \$133,373 in additional annual revenues. The requested rates would increase the bill of a residential customer who uses 5,000 gallons per month from \$41.35 to \$45.31 per month, an increase of \$3.96, or 9.6 percent. On March 26, 2014, the Commission issued a procedural order to ensure the orderly review of Webster County's application.

Pursuant to the procedural order, Staff issued a report on May 28, 2015, finding that Webster County's current rates generate annual revenues that are sufficient to meet its overall revenue requirement. On June 19, 2015, Staff, in response to a request by Webster County, filed into the record information concerning the pro forma depreciation adjustments described in the May 28 report. On July 13, 2015, Webster County filed a written response accepting Staff's findings and waiving its right to request a hearing.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Webster County was organized pursuant to KRS Chapter 274. It owns and operates a water distribution system through which it provides water service to approximately 1,994 customers in Webster County, Kentucky.<sup>1</sup>

2. The calendar year ended December 31, 2014, should be used as the test year to determine the reasonableness of Webster County's existing and proposed water rates.

3. As determined by Staff, based upon pro forma test-year operations, Webster County's total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known and measurable changes, are \$1,815,422 and \$1,639,628, respectively.<sup>2</sup>

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<sup>1</sup> Staff Report at 1.

<sup>2</sup> *Id.* at 6. The revenues and expenses listed below include all regulated and non-regulated operations that should be accounted for when calculating Webster County's income that is available to service its debt.

Water Sales Revenue	\$ 1,758,085
Other Operating Revenue	52,904
Interest Income	3,576
Gains for Disposition of Utility Property	<u>857</u>
Total Revenue	<u>\$ 1,815,422</u>
Operation and Maintenance Expenses	\$ 1,111,578
Taxes Other Than Income	37,191
Depreciation	<u>490,859</u>
Total Expenses	<u>\$ 1,639,628</u>

4. Webster County currently has outstanding loans payable to the Kentucky Infrastructure Authority (“KIA”) that were assumed to finance the cost of water system improvement projects. The five-year average principal and interest payments for the years 2015 through 2019 on these loans is \$93,523.<sup>3</sup>

5. The Commission has historically used a Debt Service Coverage (“DSC”) method to calculate the revenue requirements of water districts with long-term debt.

6. The DSC method, as applied by the Commission, includes an allowance for working capital that is set equal to the minimum net revenues required by Webster County’s lenders that are above its average annual debt payments.

<sup>3</sup> In its report, Staff incorrectly calculated Webster County’s five-year average debt payment to be \$106,892. As calculated below, the correct amount is \$93,523.

Year	Annual Debt Payment		
	Staff Report	Correct Amount	Difference
2015	\$ 135,673	\$ 117,852	\$ 17,821
2016	133,001	117,655	15,346
2017	90,507	77,496	13,011
2018	88,614	77,370	11,244
2019	86,664	77,240	9,424
Total	534,459	467,613	66,846
Divide by: 5 Years	5	5	5
Average Annual Debt Payment	\$ 106,892	\$ 93,523	\$ 13,369

7. Application of the Commission’s DSC method to Webster County’s pro forma operations results in an overall revenue requirement of \$1,742,503.<sup>4</sup>

8. Webster County’s present rates produce operating revenues of \$1,815,422, which exceeds its overall revenue requirement by \$72,919.

9. No increase to Webster County’s current rates is warranted.

10. Webster County’s proposed rates should be denied.

11. During the test year, Webster County used service lives for certain assets that are at variance with those found in a survey of the National Association of Regulatory Utility Commissioners (“NARUC Survey”) that contain “a range of average service lives currently being used by water utilities throughout the country for water facilities designed and installed and maintained in accordance with good water works practice.”<sup>5</sup>

12. The Commission has previously used the NARUC Survey to establish the services lives of water assets when there is no evidence in the record that supports alternative lives.<sup>6</sup>

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	Pro Forma Operating Expenses	\$ 1,639,628
	Plus: Average Annual Principal and Interest Payments	93,523
	Additional Working Capital	<u>9,352</u>
	Overall Revenue Requirement	<u><u>\$ 1,742,503</u></u>

<sup>5</sup> National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 11.

<sup>6</sup> Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC Nov. 21, 2007); and Case No. 2012-00278, *Application of Graves County Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Sept. 5, 2012).

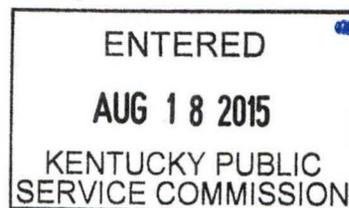
13. The record contains no evidence that the service lives that Webster County uses for certain assets as shown in the Appendix attached hereto should be at variance with the NARUC Survey.

14. Webster County's assignment of service lives for the asset groups shown in the Appendix attached hereto is not reasonable and should be revised to conform to the NARUC Survey for ratemaking and accounting purposes in all future reporting periods.

IT IS THEREFORE ORDERED that:

1. The water service rates requested by Webster County are denied.
2. In all future reporting periods, Webster County shall use the "PSC Approved Service Life" set forth in an Appendix to this Order for the listed asset groups when calculating and reporting depreciation for all reporting periods after the date of this Order. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in accounting estimate.

By the Commission



ATTEST:

  
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Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2015-00065 DATED **AUG 18 2015**

Proposed Modifications to the Service Lives of Certain Assets of Webster County Water District

<b>Asset Classification</b>	<b>NARUC Range</b>	<b>Previous Assigned Service Life</b>	<b>PSC Approved Service Life</b>
E-Structure & Improve-Source of Supply (304-0002): 304.2 Structures & Improve, Pumpsite Improvements, Pumpstation-St, Pumpstation-CD	35-40	30-50	37.5
F-Structure & Improve-Water Treatment (304-0003): Improvements, Interconnect Project, Phase III Upgrade	35-40	20,30	37.5
G-Structures & Improvements-Office (304-0005): Building, New Office Building, Improvements	35-40	10-30	37.5
I-Structures & Improve-River Intake (304-0007): River Intake Structure, Plant Structure	35-40	50	37.5
I-Structures & Improve-River Intake (304-0007): Raw Water Intake, River Intake/Lake, River and Other Intakes	35-45	50	40
J-Structures & Improve-Pumping (304-0007): Pump Station-S, C, & Ritz Road	35-40	30	37.5
L-Electric Pumping Equipment (311-0002): Electric Pumping Equipment, Equipment, Pumping Equipment, Pump & Intake, Pump & Labor, High Service Pump, Motor Pumping Equipment, 60 & 30 HP Motors, Pump Repairs	20	10,50	20
N-Reservoirs and Standpipes (330-0004): Tank Painting, Painting-300,000 Elevated Tank	*	20,50	15

<b>Asset Classification</b>	<b>NARUC Range</b>	<b>Previous Assigned Service Life</b>	<b>PSC Approved Service Life</b>
O-Trans & Distribution Mains (311-0004)	50-75	40,50	50
P-Meters & Installations (334-0004)	40-50	10	45
Q-Hydrants (335-0004)	40-60	10,40	40
T-Transportation Equipment (341-0005)	7	5	7

\*Tank Painting costs are normally amortized rather than depreciated. As such, service lives of tank paintings are not represented in the NARUC Study.

\*Paul D Lashbrooke  
Superintendent  
Webster County Water District  
P. O. Box 320  
Dixon, KY 42409-0320

\*Webster County Water District  
478 US HWY 41-A South  
P. O. Box 320  
Dixon, KY 42409-0320